

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

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William J. Pavão
Executive Director

MEMBERS:

Bill Lockyer, Chair
State Treasurer

Ana J. Matosantos, Director
Department of Finance

John Chiang
State Controller

RE: Asset Management Monitoring Services for ARRA (Gap Filler) Projects

Dear ARRA Recipient:

The California Tax Credit Allocation Committee (TCAC) is responsible for performing asset management functions for projects awarded American Recovery and Reinvestment Act (ARRA) funds to ensure the long term viability of the ARRA portfolio.

The Department of Housing and Urban Development (HUD) issued formal guidance on September 18, 2009, identifying asset management activities and granting state housing credit agencies the right to charge fees to TCAP owners for asset management activities. The US Treasury issued similar guidance per ARRA Section 1602 (c) (3) that applies to projects that were awarded Section 1602 funds. The guidance allows states to establish differing fee levels for asset management services as long as the fee structure is transparent and applied equitably to all ARRA projects.

TCAC's project regulatory agreement for the subject property references an asset management fee in Section (21), as authorized by regulation Section 10323(f).

TCAC staff has considered options for discharging federal asset management responsibilities while minimizing the cost impact on previously-closed or closing projects. For Tax Credit projects that received ARRA Gap-filler funding, TCAC has identified two options for asset management during the initial 15-year federal compliance period:

Option 1: TCAC may enter into a Cooperation Agreement with your equity partner to share their asset management reports at no cost to TCAC during the 15-year monitoring term. The three specific reports would include: Annual Operating Budget approved by the equity partner, Audited Financial Statements, and Annual Physical Inspection Reports. Such an agreement would allow TCAC to forgo an asset management fee altogether.

Option 2: Absent a Cooperation Agreement between project sponsor and your equity partner, TCAC will perform asset management functions and collect annual asset management fees during the initial 15-year federal compliance period as established under TCAC program regulations (Section 10323 (f) (2)).

If you elect Option 2, your project will be included in the TCAC's asset management portfolio and subject to asset management fees as identified below.

Asset Management Fee Structure:

1. For projects that received Gap Filler Assistance:
 - Annual Asset Management fee of ***\$7,500 per year (up to 75 units) and \$40 per unit per year*** for each additional unit in tax credit project with a maximum cap of \$15,000 per year.
2. For small development projects with 30 units or less, that received Gap Filler Assistance:
 - Annual Asset Management fee of ***\$5,000 per year (up to 30 units)***

TCAC understands some developers may be interested in pre-funding the asset management fees (capital account) as part of the tax credit transaction and has developed the following alternative payment options available to all ARRA project sponsors:

Choice #1: Regular Annual Payment

Example: For a 100 unit development, the owner would compute the fee as follows: \$7,500 (base fee) plus \$40/ unit x 25 units is \$1,000 which totals \$8,500 annually for 15 years.

Choice #2: One-time Advanced Payment

Example: For same 100 unit development, the owner would remit a one-time advanced fee of \$127,500 payable to TCAC.

Choice #3: Split Payment

Example: For the same 100 unit development, the owner would remit one-half *\$63,750 (50%)* as an advanced asset management fee with the remaining balance *\$63,750(50%)* due and payable in 14 equal payments of \$4,553.58 annually (year 2 thru 15).

Please elect Option 1 or Option 2. If you elect **Option 1**, please complete, sign, and date both Attachment A and Cooperation Agreement. If you elect **Option 2**, please complete, sign, and date both Attachment A and Attachment B. Please note, the payment option you elect on Attachment B is a **one-time irrevocable election** for payment of your project's asset management fee. This election will cover the term of the 15-year asset management monitoring term for which your project will be subject to asset management services by TCAC. Please return Attachment A, Attachment B (if applicable), and Cooperation Agreement (if applicable) to TCAC by .

If you have any questions regarding this letter, please contact Ammer Singh, Compliance Program Manager at (916) 654-6340.

Sincerely,

Rose Guerrero, Chief
Compliance Section

Attachment A (enclosed)
Attachment B (enclosed)
Cooperation Agreement (enclosed)